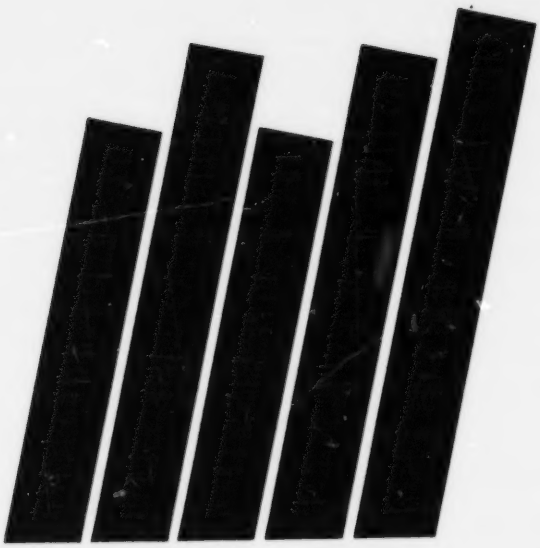


1986-87 PUBLIC ACCOUNTS DIGEST

MINISTRY OF FINANCE AND CORPORATE RELATIONS

Province of British Columbia

British Columbia Cataloguing in Publication Data

British Columbia. Ministry of Finance and Corporate Relations.
Public accounts of British Columbia, digest. — 1986/87 —

Annual.
Cover title: Public accounts digest.
Report year ends March 31.

ISSN 0831-6058

1. Finance, Public — British Columbia — Accounting — Periodicals. I. Title. II. Title: Public accounts digest.

HJ13.B752 354.7110072'31'05

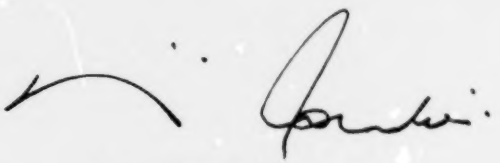
MESSAGE FROM THE MINISTER

This digest summarizes the 1986/87 Public Accounts in a way that can be understood by persons who are not accountants.

Summary information presented in this digest is taken from the combined statements of the operations of the government, not including Crown corporations.

The Public Accounts are published in three volumes. They contain the full combined, consolidated and trust statements together with supporting schedules; a listing of payments to elected officials, employees, suppliers and grant recipients; financial statements of Crown corporations and agencies and the auditors' reports. These volumes may be obtained from the Queen's Printer.

I hope this digest will serve as an important link in the chain of accountability between the government and all British Columbians.



MEL COUVELIER
Minister of Finance
and Corporate Relations

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INTRODUCTION

An overview of the financial process which illustrates critical stages of budget preparation, reporting and review is presented at the beginning of the digest.

The section on net revenue and expenditure shows results of the government's financial transactions for the fiscal year. Results are translated into per person ("per capita") figures to make the numbers more meaningful to the reader.

Specific information on revenue (income) is in the next section. Actual revenue, compared to budgeted revenue and the government's major sources of revenue are identified.

The section on expenditure (expenses) compares actual expenditure to authorized or budgeted expenditure. Highlights include a breakdown of costs of government services as well as the amounts spent on various categories of goods and services required to deliver government programs.

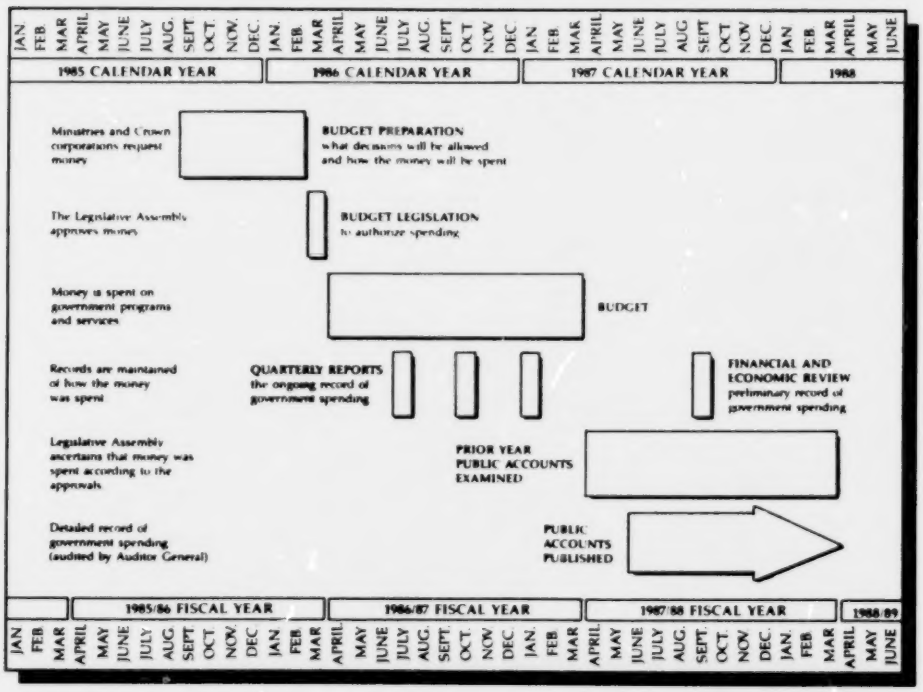
An explanation of how the government financed its operations and details of government borrowing can be found in the final two sections.

Summary financial statements are provided in the appendices.

OVERVIEW OF FINANCIAL PROCESS

The budget is a public document which outlines the government's revenue and expenditure plans for the coming 12 months (April 1 to March 31). Preparation begins approximately eight months before the annual budget is presented to the Legislative Assembly. Each ministry first identifies activities that require funding. Then, Treasury Board, a committee of cabinet ministers chaired by the Minister of Finance and Corporate Relations, reviews ministry budget requests and makes the final decisions on individual ministry budgets. Allocations to each ministry and program are arrived at in conjunction with revenue expectations and in harmony with the government's priorities.

CHART 1 THE FINANCIAL CYCLE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1985 CALENDAR YEAR
1986 CALENDAR YEAR
1987 CALENDAR YEAR
1988
Ministries and Crown corporations request money
BUDGET PREPARATION
what decisions will be allowed and how the money will be spent
The Legislative Assembly approves money
BUDGET LEGISLATION
to authorize spending
Money is spent on government programs and services
BUDGET
Records are maintained of how the money was spent
QUARTERLY REPORTS
the ongoing record of government spending
FINANCIAL AND ECONOMIC REVIEW
preliminary record of government spending
Legislative Assembly ascertains that money was spent according to the approvals
PRIOR YEAR PUBLIC ACCOUNTS EXAMINED
Detailed record of government spending (audited by Auditor General)
PUBLIC ACCOUNTS PUBLISHED
1985/86 FISCAL YEAR
1986/87 FISCAL YEAR
1987/88 FISCAL YEAR
1988/89
JAN FEB MAR APRIL MAY JUNE JULY AUG. SEPT OCT NOV DEC JAN FEB MAR APRIL MAY JUNE JULY AUG. SEPT. OCT. NOV DEC. JAN. FEB MAR APRIL MAY JUNE JULY AUG. SEPT. OCT. NOV DEC. JAN. FEB MAR APRIL MAY JUNE

The budget presented to the Legislative Assembly by the Minister of Finance and Corporate Relations is accompanied by a document known as the Estimates. This document, also referred to as the "Blue Book", contains supplementary tables, statistical material and a list of estimates of revenue and spending programs. Spending for programs and services under each ministry is grouped in the Estimates into packages or "votes". They are called votes because Members of the Legislative Assembly debate and then vote on each package.

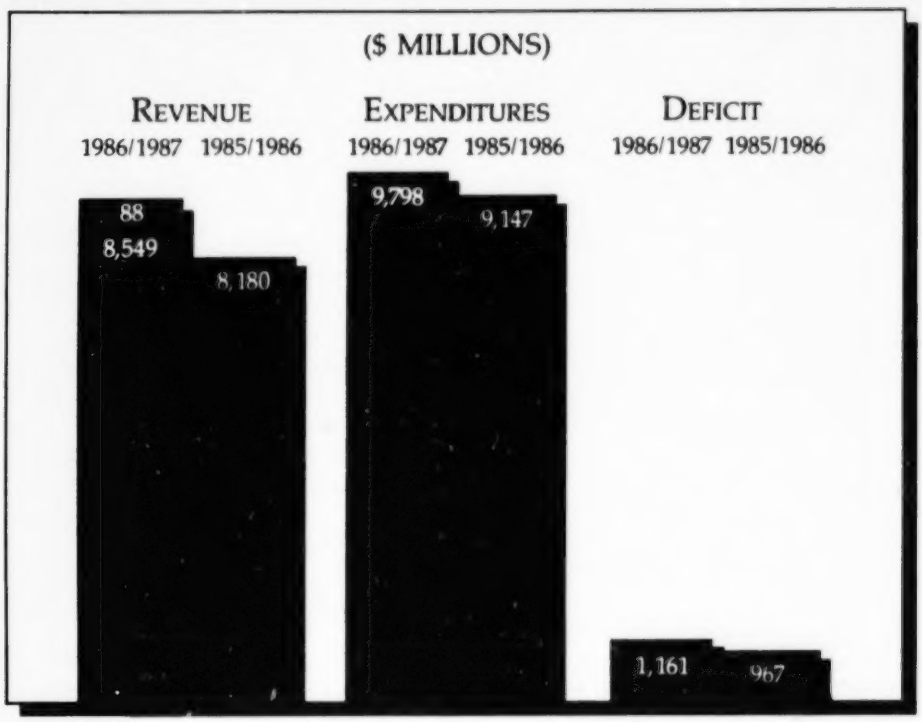
At the end of each fiscal year the Public Accounts are prepared for the Legislative Assembly describing the government's financial operations. The Public Accounts contain the government's audited financial statements and detailed schedules and appendices.

Details on the financial process can be found in Appendix 1.

NET REVENUE AND EXPENDITURE

Operating revenue of $8,549 million for 1986/87 increased by 4.5 per cent over the previous fiscal year. As operating expenditures were $9,798 million, 7.1 per cent higher than the previous year, the government had an operating deficit of $1,249 million. This deficit was reduced to $1,161 million by an $88 million increase (valuation adjustment) in the government's investments in Crown corporations. The remainder of the deficit and the government's requirements for working capital were covered by government borrowing.

CHART 2 FINANCIAL HIGHLIGHTS

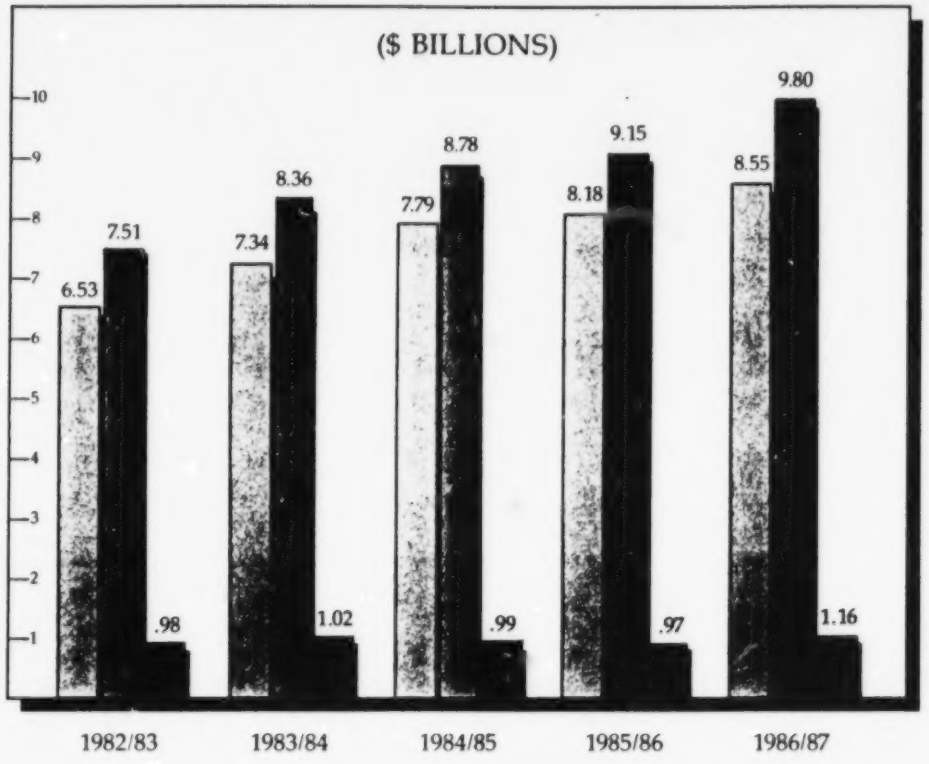


The excess of expenditure over revenue (deficit) for 1986/87, when added to previous years' accumulated deficits, gives an excess of liabilities over recorded financial assets of $3.7 billion or $1,269 per person (provincial population of 2,926,300).

CHART 3 COMBINED STATEMENT OF REVENUE AND EXPENDITURE

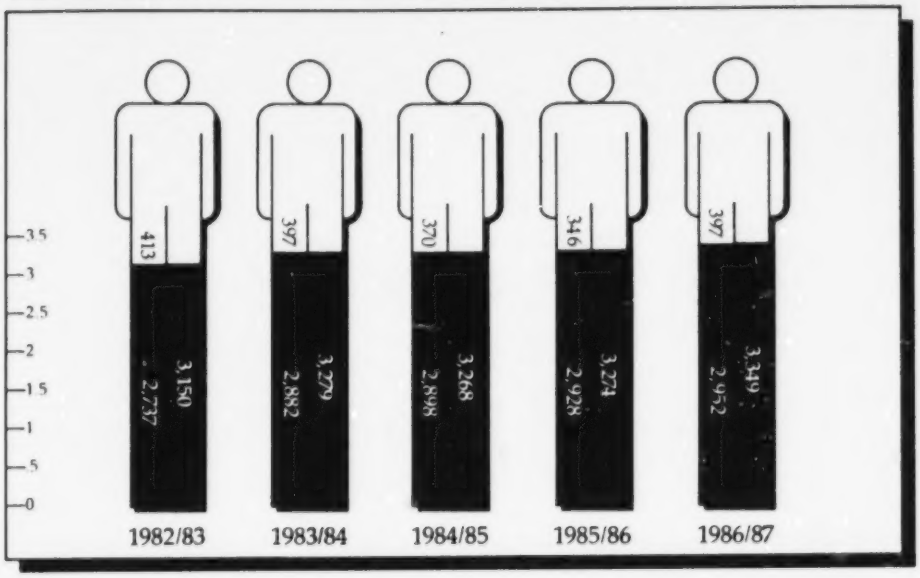
	1987	1986
	($ Millions)	
REVENUE		
Taxation	4,861	4,649
Natural resources	658	700
Other	589	607
Contributions from government enterprises	448	398
Contributions from the federal government	1,993	1,826
Total revenue	8,549	8,180
EXPENDITURE		
Health	2,881	2,587
Social services	1,491	1,527
Education	1,914	1,735
Transportation and communications	975	1,081
Natural resources, trade and industrial development	615	660
Protection of persons and property	453	427
Aid to local government	392	298
Debt servicing	394	342
General government	196	161
Housing	102	88
Recreation and cultural services	67	68
Other	318	173
Total expenditure	9,798	9,147
Net operating expenditure (deficit) for the year	(1,249)	(967)
NON-OPERATING TRANSACTIONS		
Valuation adjustment of investments in and amounts due from Crown corporations and agencies	88	
Net expenditure (deficit) for the year	(1,161)	(967)

CHART 4 **NET FINANCIAL RESULTS— 1982/83 TO 1986/87**



Provincial government spending has increased by 30.4 per cent from $7.51 billion in 1982/83 to $9.80 billion in 1986/87. Revenue over the same period has increased by 30.9 per cent from $6.53 billion to $8.55 billion. However, when the effects of inflation and population growth are taken into consideration, spending increased by $199 per person or 6.3 per cent and revenue increased by $184 per person or 6.7 per cent over the same period.

CHART 5 PER CAPITA FINANCIAL RESULTS 1982/83 TO 1986/87 (1987 DOLLARS)



REVENUE

EXPENDITURE

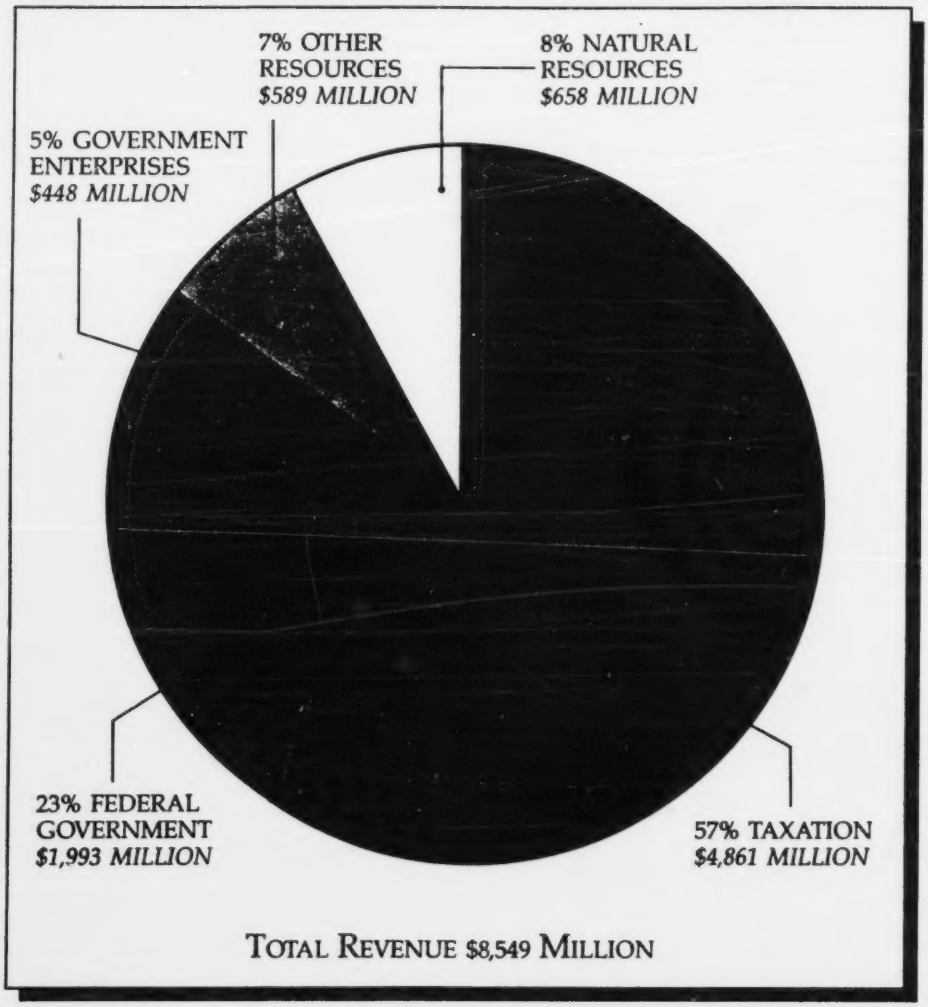
DEFICIT

After taking into account the effects of inflation and population growth, per capita revenue and spending have remained relatively unchanged over the past five years.

REVENUE

For 1986/87, operating revenue of $8,549 million was 4.5 per cent higher than the previous year but $219 million below the budget estimate. (Appendix 3 provides details on budgeted and actual revenues by source.)

CHART 6 REVENUE SOURCES 1986/87



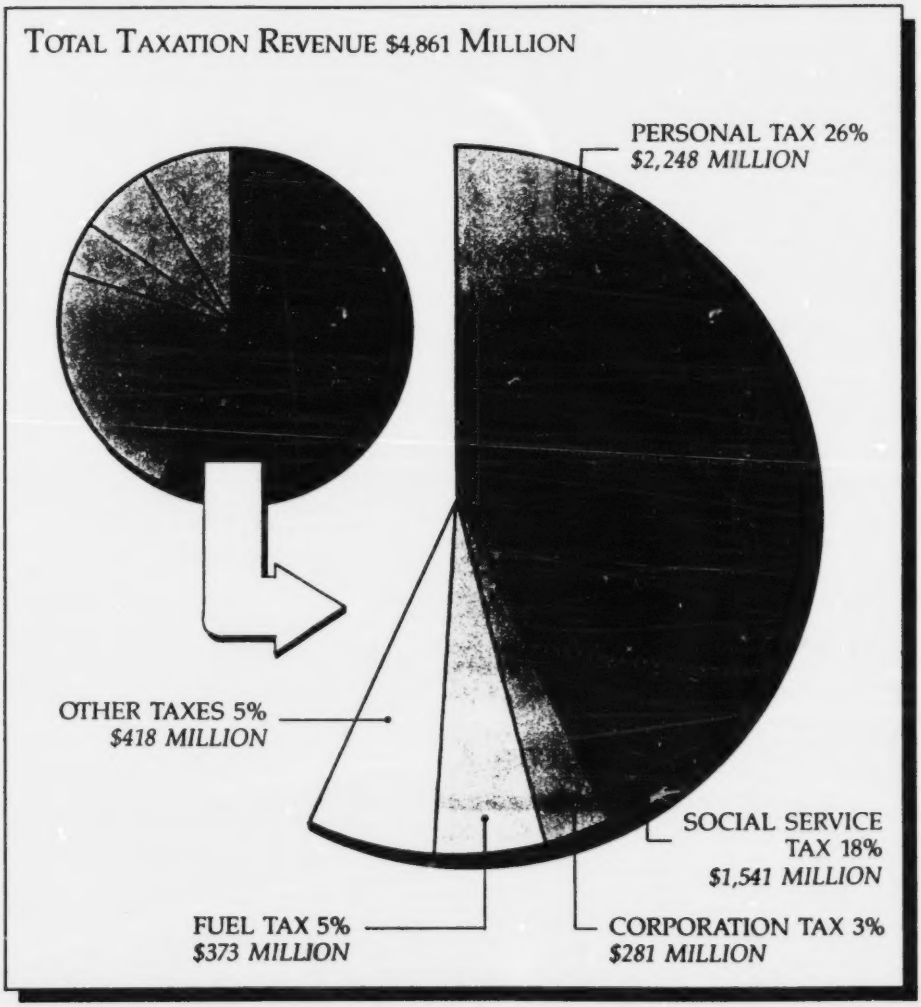
	Total ($ Millions)	Per Capita (Dollars)	Per Cent
Taxation	4,861	1,661	57
Natural resources	658	225	8
Other revenue	589	201	7
Contributions from government enterprises	448	153	5
Contributions from the federal government	1,993	681	23
Total revenue	8,549	2,921	100

Taxation Revenue

Taxation revenue of $4,862 million was $327 million below budget estimate, but 4.6 per cent higher than during 1985/86.

Personal and corporate income taxes are collected for the provincial government by the federal government. Revenue is paid to the province on the basis of federal estimates of taxes that will be collected during the year. Once sufficient information is available (after approximately one year) an adjustment is made to reflect the taxes actually collected. Personal income tax revenue was $103 million below budget, mainly as a result of lower-than-expected payments for the 1986 taxation year. Corporation income tax revenue was $125 million below budget and 13.2 per cent lower than in 1985/86. The variance was due to lower-than-expected payments for the 1986 taxation year and a larger-than-expected downward adjustment for prior years.

CHART 7 TAXATION REVENUE 1986/87



Taxation Revenue
1986/87

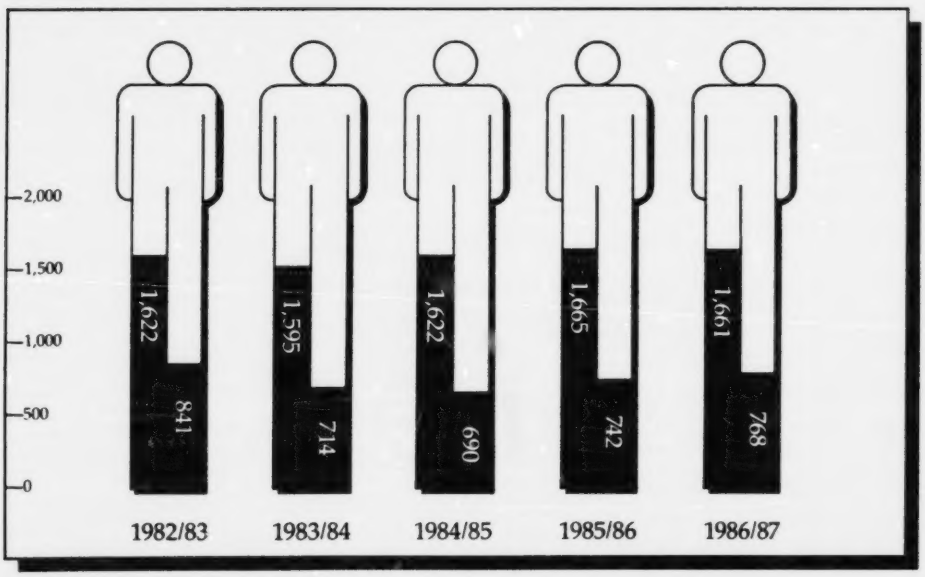
	Total ($ Millions)	Per Capita (Dollars)	Per Cent of Total Revenue
Personal income tax	2,248	768	26
Corporation income tax	281	96	3
Social service tax	1,541	527	18
Fuel tax	373	127	5
Other tax revenue	418	143	5
Total tax revenue	4,861	1,661	57

Social service tax revenue was $82 million below budget but 6.1 per cent higher than the previous fiscal year. Variance from budget was associated with lower-than-expected retail sales and investment spending.

Fuel tax revenue was $63 million below budget and 11.1 per cent below 1985/86 because of lower tax rates on fuels. Anticipated rates were based on pre-tax retail prices, but actual rates were lower due to a drop in world oil prices.

Other taxation revenue was $47 million above budget and 9.9 per cent higher than 1985/86 due to increased corporation capital tax, hotel room tax and tobacco tax revenue.

CHART 8 **TAXES PER CAPITA - 1986/87 (1987 DOLLARS)**



TOTAL TAXES PER PERSON

PERSONAL INCOME TAX PER PERSON

After taking into account the effects of inflation and population growth, the per capita income tax burden has decreased slightly over the past five years while the total per capita tax burden has increased slightly.

Natural Resource Revenue

Natural resource revenue, which accounts for eight per cent of the province's total revenue, declined by $23 million during 1986/87, bringing the total to $658 million.

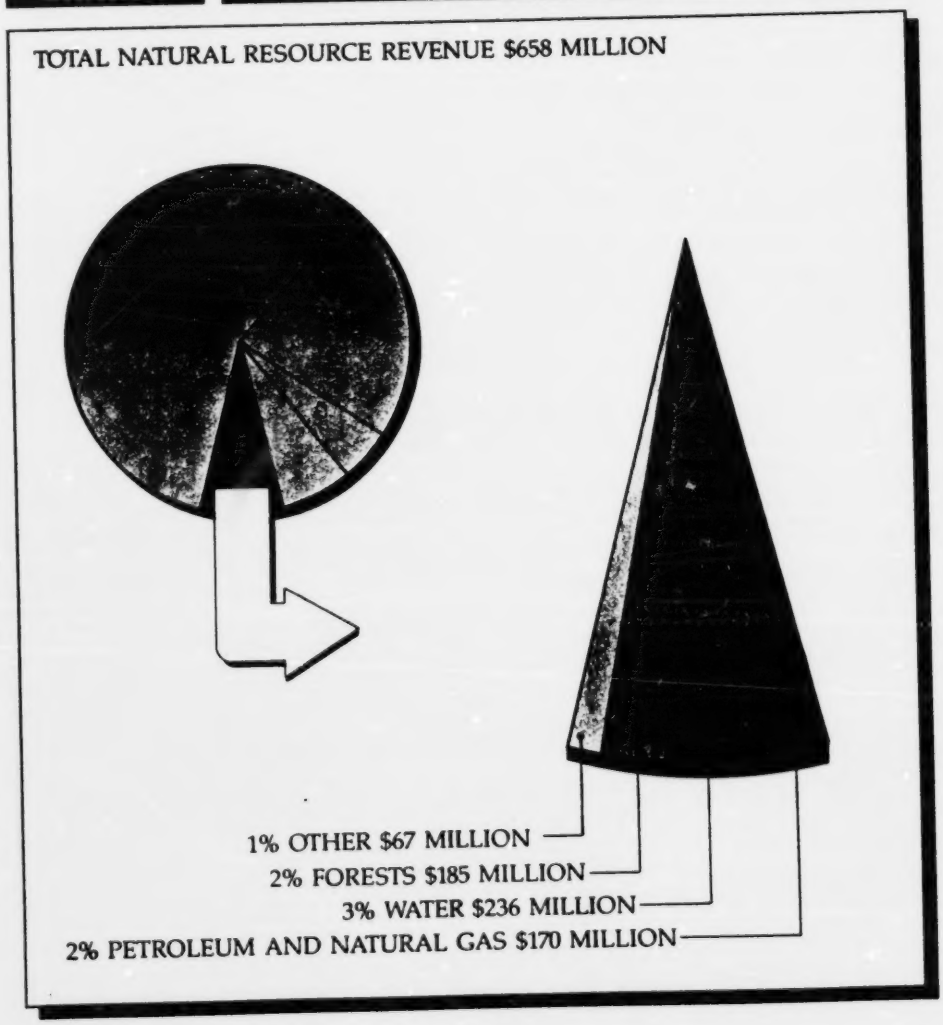
Petroleum and natural gas revenue fell by $72 million or 37.8 per cent in step with lower world prices for oil and natural gas. Lower revenue from bids for oil and gas drilling rights were also a factor.

Forest revenue increased by 28.5 per cent and was $45 million higher than forecast. Additional revenue from timber sales and $21 million from the new federal export charge on British Columbia lumber shipped to the United States contributed to the increase.

Mineral revenue declined from the previous fiscal year, $11 million below budget expectations. Low world coal and metal prices accounted for the difference.

Water rental income was $16 million above budget and 10.1 per cent higher than previous fiscal years due to increased demand for water for generation of electrical power.

CHART 9 **NATURAL RESOURCE REVENUE 1986/87**


TOTAL NATURAL RESOURCE REVENUE $658 MILLION
1% OTHER $67 MILLION
2% FORESTS $185 MILLION
3% WATER $236 MILLION
2% PETROLEUM AND NATURAL GAS $170 MILLION

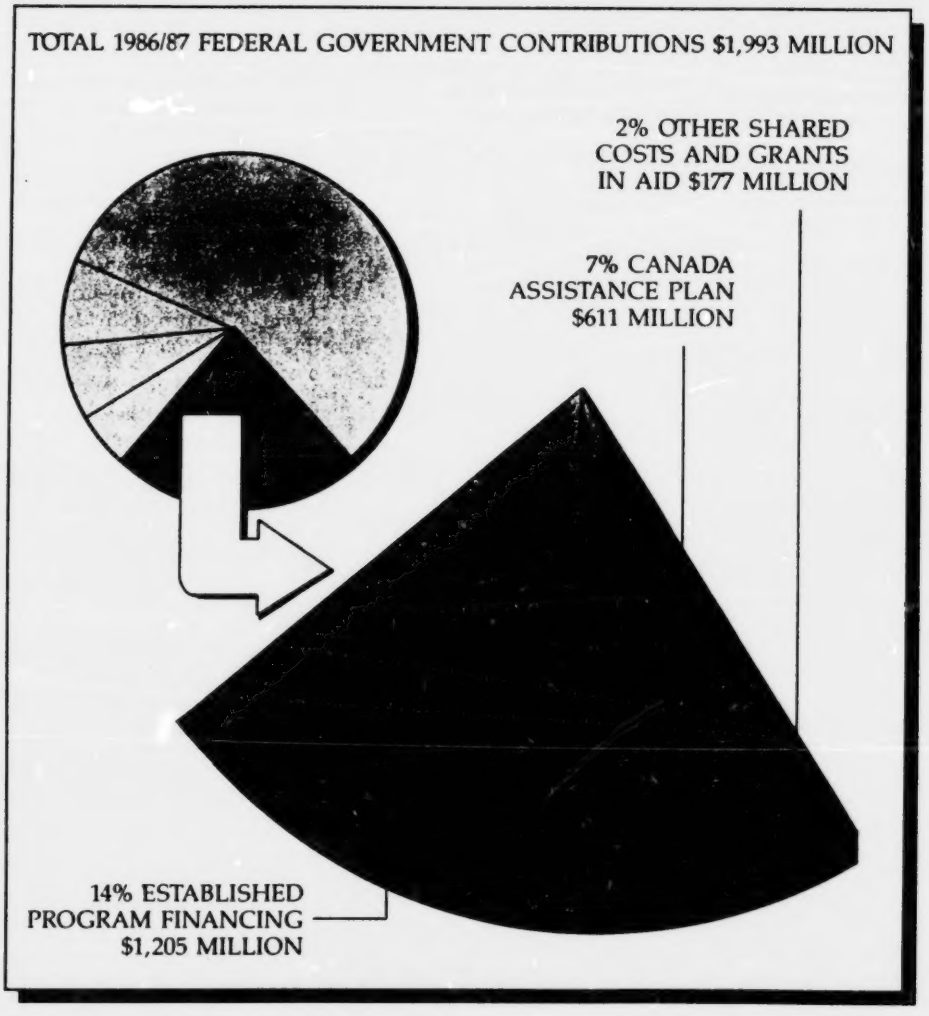
Natural Resource Revenue 1986/87

	Total ($ Millions)	Per Capita (Dollars)	Per Cent of Total Revenue
Petroleum and natural gas	170	58	2
Water resources	236	81	3
Forests	185	63	2
Minerals	56	19	1
Wildlife	11	4	
Total natural resource revenue	658	225	8

Contributions from the Federal Government

Contributions from the federal government of $1,993 million were $101 million above budget and 9.2 per cent higher than the previous fiscal year. The major difference was a $53 million payment of funds withheld in previous fiscal years by the federal government.

CHART 10 FEDERAL GOVERNMENT CONTRIBUTIONS


TOTAL 1986/87 FEDERAL GOVERNMENT CONTRIBUTIONS $1,993 MILLION
2% OTHER SHARED COSTS AND GRANTS IN AID $177 MILLION
7% CANADA ASSISTANCE PLAN $611 MILLION
14% ESTABLISHED PROGRAM FINANCING $1,205 MILLION

Federal Government Contributions 1986/87

	Total ($ Millions)	Per Capita (Dollars)	Per Cent of Total Revenue
Established Program Financing	1,205	412	14
Canada Assistance Plan	611	209	7
Other shared costs and grants in aid	177	60	2
Total contributions from federal government	1,993	681	23

Established programs include payments for post-secondary education and health care purposes. Canada Assistance Plan payments are received for cost shared expenditure made by the government for social assistance and welfare services. The other government programs based on cost sharing agreements are primarily for manpower training and economic development.

Contributions from Government Enterprises

Contributions from government enterprises of $448 million were $18 million above the budget estimate and up 12.4 per cent from 1985/86. Liquor Distribution Branch profits were $5 million above budget and 6.6 per cent higher because of increased sales associated with Expo 86.

The provincial government also received a $10 million dividend from the British Columbia Railway Company and unbudgeted dividends of $10 million and $3 million from the British Columbia Ferry Corporation and the British Columbia Buildings Corporation, respectively. These were the first dividends ever paid to the government by British Columbia Railway Company and British Columbia Ferry Corporation and the first dividend received from the British Columbia Buildings Corporation since 1984/85.

Other Revenue

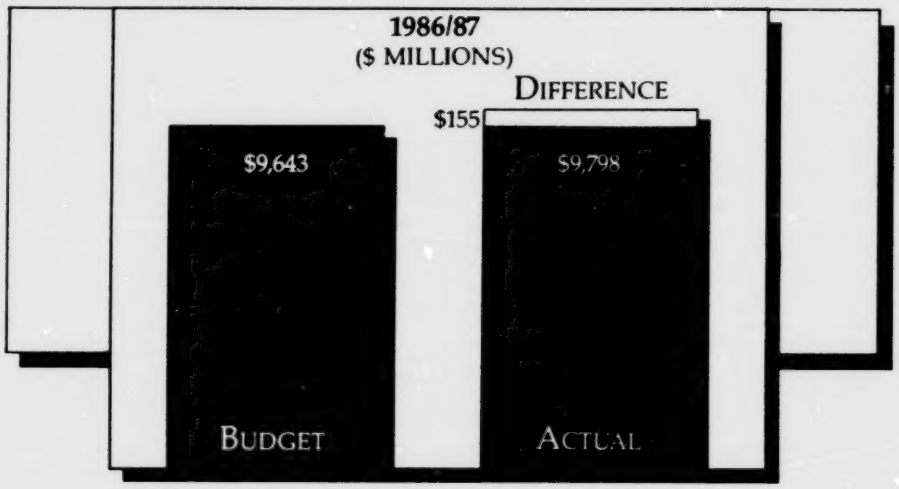
Other revenue totalled $589 million — $13 million above budget, but 2.2 per cent less than 1985/86. Lower-than-expected motor vehicle licence and permit revenues, Farm Income Assurance Fund premiums and interest from investments contributed to the decrease in revenue. Other revenues were also down because a one-time sale of saltwater ferry assets in 1985/86 was not repeated in 1986/87. The decrease was partially offset by increased lottery revenue.

EXPENDITURE

Performance to Budget

Provincial government spending of $9,798 million during 1986/87 was $155 million above the original budget estimate. Higher-than-expected spending on hospital programs, the Medical Services Plan and provision for the complete retirement of Expo 86 debt accounted for the increase. (Appendix 3 provides details of ministry performance against budget.)

CHART 11 ACTUAL VS. BUDGETED EXPENDITURES



Ministry of Agriculture and Fisheries spending of $69 million was $47 million below budget due to lower-than-budgeted spending by the Farm Income Assurance Fund and low spending under the federal provincial Agri-Food Regional Development Subsidiary Agreement.

Spending by the Ministry of Attorney General of $417 million was $29 million above budget. A grant of $15 million to the British Columbia Steamship Company for the purchase of a ferry and increased court services and legal services contributed to the increase.

A $16 million write-off of a provincially guaranteed sinking fund investment in the Canadian Commercial Bank was the main reason for additional spending of $20 million by the Ministry of Finance and Corporate Relations.

Ministry of Forests and Lands spending of $386 million was $15 million below the budget estimate. This was primarily the result of relatively few fires and lower-than-expected spending from the Forest Stand Management Fund.

Ministry of Health spending of $2,860 million was $106 million above budget and 8.7 per cent higher than the previous fiscal year. Additional spending for the Medical Services Plan and for hospital programs due to wage and fee settlements for health care workers and utilization increases accounted for most of the extra spending.

Ministry of Provincial Secretary and Government Services expenditure of $77 million was $8 million above the original budget estimate. Provincial election expenses of $10 million were the main cause of the difference.

Interest on public debt of $394 million was $64 million below budget but up significantly from the previous year. This was primarily the result of borrowing less money at lower interest rates than originally expected.

Lottery Fund

Spending by the B.C. Lottery Fund of $289 million was $179 million above the budget estimate because of accelerated retirement of the Expo 86 debt in 1986/87. The B.C. Lottery Fund paid $231 million toward retirement of Expo 86 debt. There will be no further charge to government expenditure for the Expo 86 deficit after March 31, 1987.

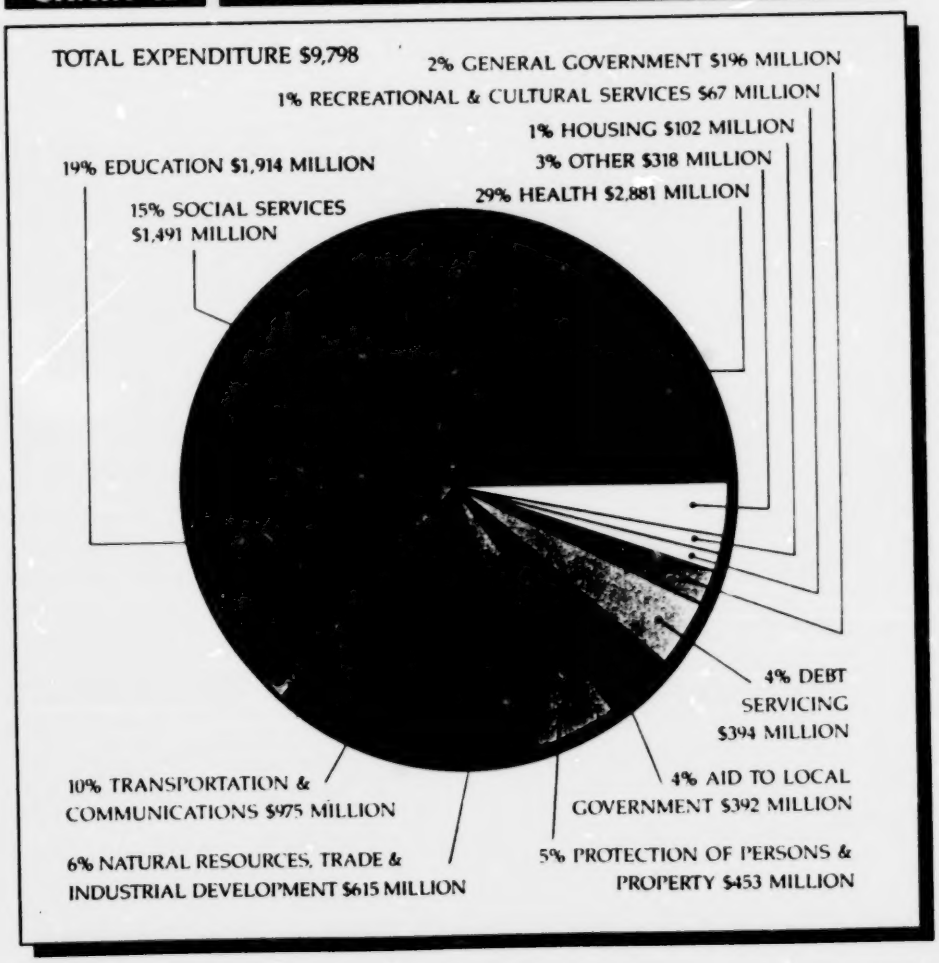
Investments in Crown Corporations

Valuation adjustments of certain investments in Crown corporations reduced the government's net deficit for 1986/87 by $88 million. The adjustments occurred as a result of restructuring of British Columbia Development Corporation and British Columbia Place into the British Columbia Enterprise Corporation and the B.C. Pavilion Corporation, and an increase in the value of the government's investment in British Columbia Railway Company.

Expenditure by Function

Expenditure by function shows the cost to government to deliver programs and services. The accompanying chart and table show the government's spending by major functional category.

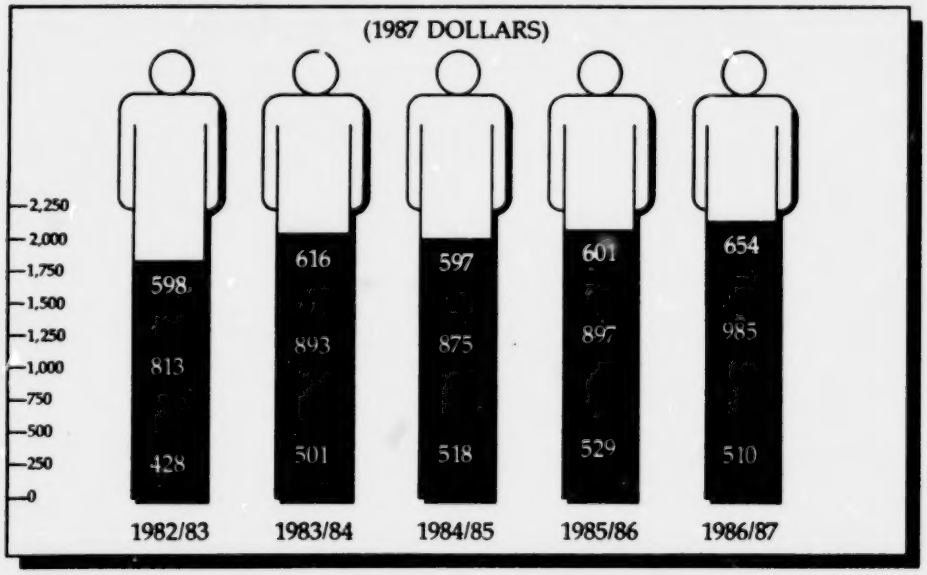
CHART 12 EXPENDITURE BY FUNCTION 1986/87


TOTAL EXPENDITURE $9,798
2% GENERAL GOVERNMENT $196 MILLION
1% RECREATIONAL & CULTURAL SERVICES $67 MILLION
1% HOUSING $102 MILLION
3% OTHER $318 MILLION
29% HEALTH $2,881 MILLION
19% EDUCATION $1,914 MILLION
15% SOCIAL SERVICES $1,491 MILLION
4% DEBT SERVICING $394 MILLION
4% AID TO LOCAL GOVERNMENT $392 MILLION
5% PROTECTION OF PERSONS & PROPERTY $453 MILLION
6% NATURAL RESOURCES, TRADE & INDUSTRIAL DEVELOPMENT $615 MILLION
10% TRANSPORTATION & COMMUNICATIONS $975 MILLION

Expenditure by Function

	$ Millions	Per Capita (Dollars)	Per Cent
Health	2,881	969	29
Social services	1,491	524	15
Education	1,914	654	19
Transportation and communications	975	333	10
Natural resources trade and industrial development	615	210	6
Protection of persons and property	453	155	5
Aid to local government	392	134	4
Debt servicing	394	135	4
General government	196	67	2
Housing	102	35	1
Recreational and cultural services	67	23	1
Other	318	109	3
Total expenditure	9,798	3,348	100

CHART 13 PER CAPITA SOCIAL PROGRAMS EXPENDITURE—1982/83 TO 1986/87



EDUCATION

HEALTH AND HOSPITALS

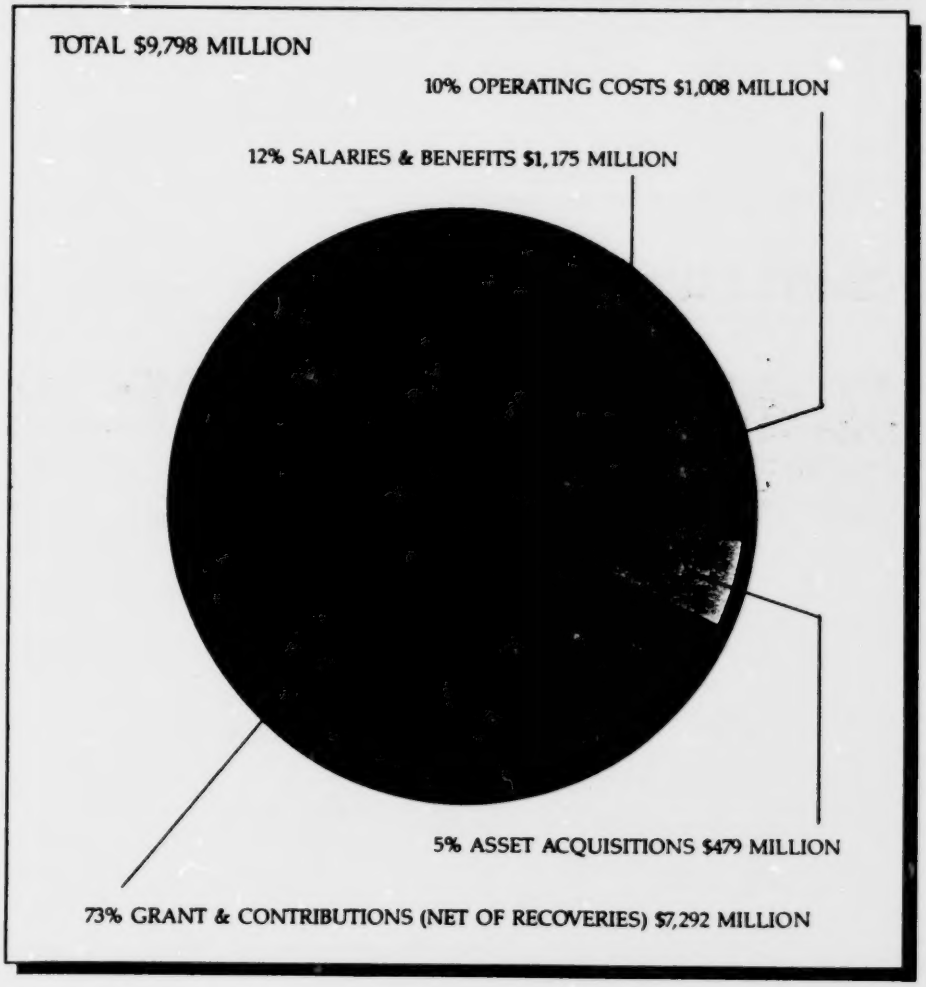
SOCIAL SERVICES

The 16.9 per cent increase in per capita social program spending has exceeded the 6.3 per cent growth in total government per capita spending over the past five fiscal years.

Expenditure on Goods and Services

The government spends money on a wide variety of goods and services to deliver government programs. The chart and tables below provide a breakdown of government spending by major category of goods and/or services acquired.

CHART 14 EXPENDITURES FOR GOODS & SERVICES 1986/87


TOTAL $9,798 MILLION
10% OPERATING COSTS $1,008 MILLION
12% SALARIES & BENEFITS $1,175 MILLION
5% ASSET ACQUISITIONS $479 MILLION
73% GRANT & CONTRIBUTIONS (NET OF RECOVERIES) $7,292 MILLION

	Total $ Millions	Per Capita (Dollars)	Per Cent
Salaries and benefits	1,175	402	12
Operating costs	1,008	345	10
Asset acquisitions	479	164	5
Grant and contributions (net of recoveries)	7,292	2,492	73
Other (net of recoveries)	(156)	(54)	
Total	9,798	3,349	100

Payroll costs of $1,175 million represent the total cost of salaries and benefits paid or payable to employees of the government and to elected officials.

Operating costs of $1,008 million include expenses such as data processing, office rent, telephone, publications and advertising, travel and services.

The $479 million spent on asset acquisition includes items obtained on long-term leases but does not include assets constructed by government personnel. For example, construction costs for a section of a highway or bridge built by government employees are included in salary and operating cost expenditure.

Grants and contributions make up 73 per cent of government spending. These payments are made to hospitals, schools, municipalities, societies, agencies and individuals. Of the $7,292 million paid out in grants and contributions it is estimated that $5,000 million goes directly to salaries paid by receiving organizations.

FINANCIAL REQUIREMENTS AND SOURCES

Financial Requirements

The government's financial requirements for 1986/87, that is funds required for working capital and to finance the deficit, totalled $1,726 million, $865 million more than forecast. Financial requirements reflected an operating deficit $269 million above budget and financing and working capital spending $596 million above budget. The bulk of the unexpected increase results from the restructuring of several Crown corporations.

Financial Sources

The government primarily met its financial requirements through a reduction in cash and temporary investments of $118 million and an increase in public debt (debt owed by the government) issued for government purposes of $1,605 million.

An additional $393 million in long and short-term funds was borrowed by the government and lent to Crown corporations.

The $1,605 million change in public debt outstanding for government purposes in 1986/87 consisted of:

- An increase in outstanding short-term (due in one year or less) promissory notes of $323 million, including $294 million acquired from the British Columbia Development Corporation, British Columbia Place and the British Columbia Buildings Corporation.
- A decrease of $125 million in 91-day Treasury Bills.
- An increase in long-term debt (more than one year) by a net amount of $1,407 million, of which $305 million resulted from the restructuring of Crown corporations.

PUBLIC DEBT

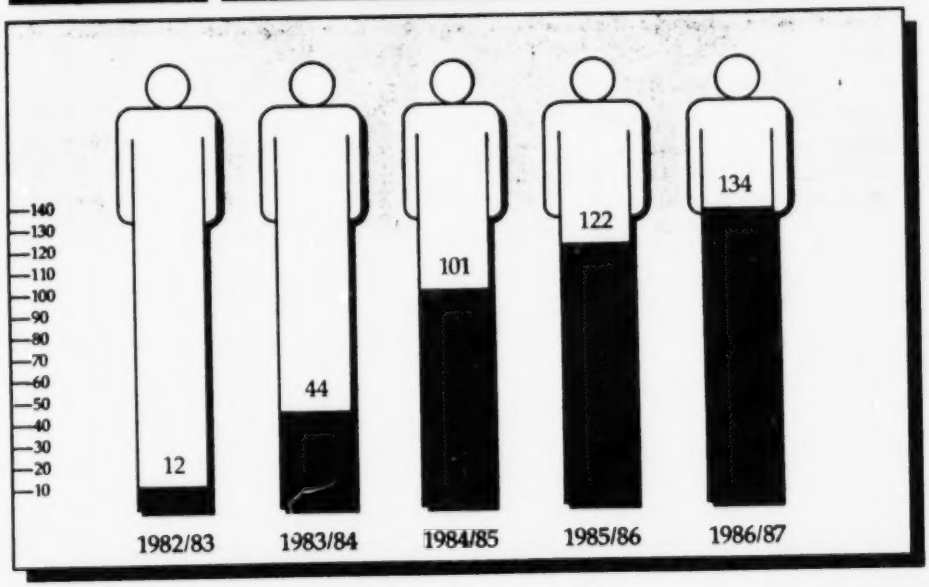
Public Debt

The provincial government issues public debt for government purposes, as needed, to finance its investments and operations.

From 1951/52 until 1981/82 the provincial government financed all operating and capital spending from current revenue and accumulated surpluses with only one exception.

Beginning in 1982/83 operating deficits have been funded through short-term and long-term borrowing in public and private markets in Canada and abroad. At March 31, 1987 provincial government net public debt (excluding funds borrowed and reloaned to Crown corporations and including accrued interest) was $4,941 million. As a result of increasing government debt, the cost of servicing debt has increased from $28 million in 1982/83 to $394 million in 1986/87.

CHART 15 PER CAPITA DEBT SERVICE COSTS 1982/83-1986/87 (1987 DOLLARS)



PROVINCE OF BRITISH COLUMBIA (for government purposes)

Fiscal Agency Loans

Government and Crown corporation net debt totalled $17,491 million at March 31, 1987. The size and complexity of provincial government and Crown corporation financing requires a borrowing program that is carefully structured and coordinated to ensure the most favourable terms in financial markets. To meet this objective, a program of direct borrowing for relending to Crown corporations was implemented in 1983 under amendments to the *Financial Administration Act*. This program provides cheaper financing to Crown corporations because of the government's strong credit rating and reputation in financial markets and because a single borrower offering larger debt issues is usually able to borrow at lower rates. At March 31, 1987 fiscal agency debt of the government totalled $2,217 million.

Guaranteed Debt

Before the introduction of fiscal agency borrowing, most capital spending by Crown corporations and public bodies in British Columbia (other than municipalities) was financed through debt issued by individual Crown corporations and guaranteed by the provincial government. At March 31, 1987 net debt of Crown corporations and other public bodies, guaranteed by the provincial government (including accrued interest), was $10,472 million.

When fiscal agency loans are included total Crown corporation debt (net of sinking funds) was $12,689 million at March 31, 1987, down 8 per cent from March 31, 1986.

Sinking Funds

The government considers it prudent to provide for the orderly retirement of debt as it comes due and regularly sets aside funds to be used to repay debt. These funds, known as sinking funds, are held in trust by the Minister of Finance and Corporate Relations to be used to pay off government and Crown corporation debt as it becomes due.

Sinking funds are currently established for all debt of five years or longer, including funds borrowed from the Canada Pension Plan Investment Fund. At March 31, 1987 sinking fund balances totalled $2,715 million for guaranteed debt, $40 million for fiscal agency debt and $89 million for provincial government direct debt. In recent years the value of some of the guaranteed debt sinking funds has reached or exceeded the amount of the corresponding debt issue in advance of the repayment date. In these cases, under legislative amendments enacted in 1981, payments into the sinking funds can be discontinued.

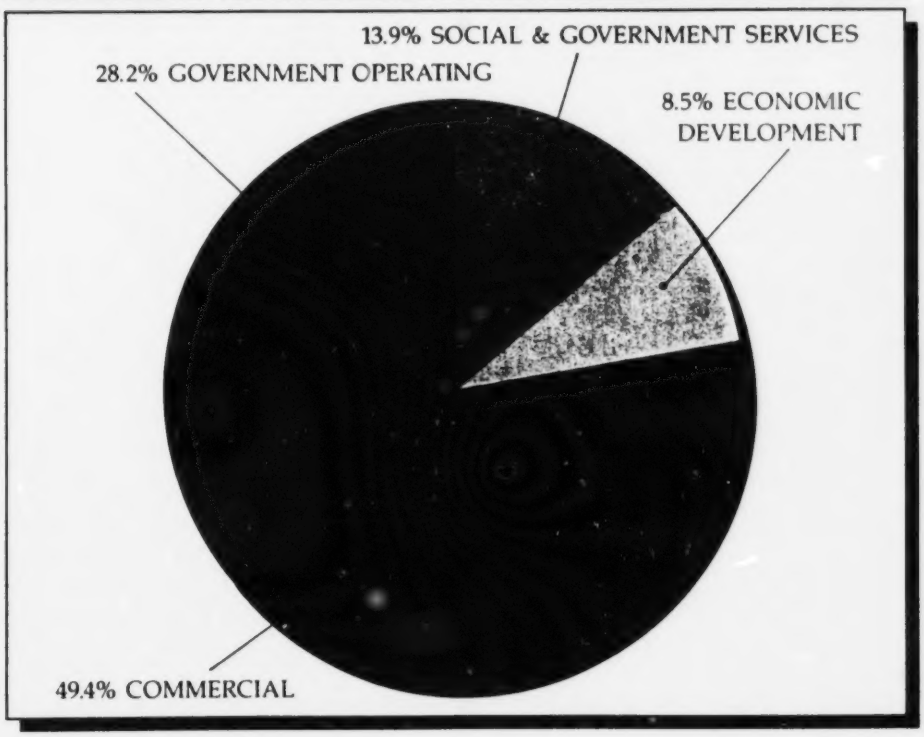
Composition of Direct and Guaranteed Debt

At March 31, 1987 direct and guaranteed debt of the provincial government totalled $17,491 million. The direct debt of government comprises approximately 28.2 per cent of the total. Approximately 49.4 per cent of this debt is debt of commercial Crown corporations such as the British Columbia Hydro and Power Authority. Commercial Crown corporations receive revenue from the sale of their services at commercial rates and pay all their own operating expenses including debt service charges.

Economic development Crown corporations include British Columbia Ferry Corporation, British Columbia Enterprise Corporation, and British Columbia Transit. These corporations are generally operated as commercial Crown corporations. They may, however, undertake projects which provide economic benefits to the province but which do not generate a sufficient financial return to service debt. In these cases, the provincial government may provide grants or other forms of assistance. At March 31, 1987, the net guaranteed debt of economic development Crown corporations represented 8.5 per cent of the total direct and guaranteed debt.

The remaining portion of guaranteed debt and fiscal agency loans has been used for financing social capital and government services projects. Construction of schools, hospitals, educational institutions and government facilities is financed through borrowing, with the cost generally amortized over a period of 20 years. Debt servicing requirements are met through grants or rental payments from the provincial government and, in the case of schools and hospitals, partly from local property levies. At March 31, 1987, guaranteed debt and fiscal agency loans outstanding in respect of social capital and government services was 13.9 per cent of total direct and guaranteed debt.

CHART 16 **DIRECT AND GUARANTEED DEBT AT MARCH 31, 1987**



APPENDICES

1986-87 PUBLIC ACCOUNTS DIGEST

Province of British Columbia

COMPONENTS OF THE FINANCIAL PROCESS

APPENDIX 1

The *Supply Act*

To obtain funds for provincial operations at the beginning of the fiscal year, the government requires approval of the Legislative Assembly.

Because the debate on the Estimates (see page 2) could take some time to complete, the government requires an advance for its ongoing programs. An Interim Supply Bill is tabled to provide this advance. These Interim Supply Bills provide funds for government expenditure for one, two, or as many months as required before approval of the full Estimates is received. A final *Supply Act* is passed once all Votes have been approved by the Legislative Assembly.

Statutory Appropriations

In addition to the year-to-year approval provided by the *Supply Act(s)*, continuing spending authority is provided in other legislation to cover special programs such as fire suppression and flood relief. Programs with permanent spending power are said to have statutory authority.

Special Warrants

A final way in which spending authority is granted under legislation is by way of a Special Warrant. Under provision of the *Financial Administration Act*, such spending approval can be given by the Lieutenant Governor only if the Legislative Assembly is not in session and if the money is deemed, by the Lieutenant Governor in Council, as urgently and immediately required for the public good. Appropriations made by Special Warrant are subsequently reported to, and reviewed by, the Legislative Assembly in the next Supply Bill.

Public Accounts

The Public Accounts are the government's financial statements and are prepared by the Office of the Comptroller General (OCG). The OCG is similar to the comptroller's section in a large corporation. In addition to being responsible for preparing the Public Accounts, the Comptroller General is responsible for accounting and financial systems throughout government. He must ensure there is proper collection, disposition and recording of public money and he must maintain the central accounts of government, issue directives and provide methods by which ministries and staff account for public money.

Auditor General's Report

In addition to expressing his opinion on the government's financial statements, the Auditor General publishes an annual report in which he comments on various matters that he considers require the attention of the Legislative Assembly. The Auditor General's annual report is generally tabled after the Public Accounts are issued.

Public Accounts Committee

Once the Legislative Assembly receives the Public Accounts and the annual report of the Auditor General, the Select Standing Committee on Public Accounts assesses financial operations and administration of the government. This committee includes both government and opposition members of the Legislative Assembly and is traditionally chaired by a member of the Opposition. Many of the matters addressed by the committee directly relate to the Public Accounts.

STRUCTURE OF GOVERNMENT FINANCIAL STATEMENTS

APPENDIX 2

The government carries on its activities through a variety of appropriations, special funds, corporations and agencies.

■ General Fund

The general fund is the main operating account of government.

■ Special Funds

A number of special funds have been created for money designated for specific purposes. For example, the government's proceeds from lotteries are set aside to pay grants for cultural or recreational purposes.

■ Consolidated Revenue Fund

The consolidated revenue fund consists of the general fund and special funds. All expenditure and revenue through the consolidated revenue fund are reported in the government's combined financial statements.

■ Crown Corporations and Agencies

A number of government activities are carried out through Crown corporations and agencies. These activities range from self-sufficient, commercial businesses such as British Columbia Hydro and Power Authority to extensions of government programs carried out by organizations such as the Legal Services Society or the Medical Services Commission.

Financial results of these corporations and agencies, together with the activities of the government itself, are reported in the consolidated financial statements.

■ Trust Funds

The Minister of Finance and Corporate Relations acts as trustee and or administrator for certain funds over which the government has no power of appropriation, including superannuation and pension funds, sinking funds, other managed trusts and custodial deposits.

The financial position of these trusts is reported in the trust funds financial statements.

SUMMARY FINANCIAL STATEMENTS

APPENDIX 3

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NOTE: These unaudited summary financial statements are mainly derived from the government's audited financial statements which may be found in Sections A, B and C of Volume 1 of the 1986/87 Public Accounts.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The three main financial statements are as follows:

Combined Financial Statements — (Consolidated Revenue Fund) Accounts included in these statements are those of the general fund which include the main operating accounts of the government and special funds which include ear-marked revenue and funds set aside by the Legislative Assembly from the general fund for specific purposes.

Consolidated Financial Statements — These statements aggregate the accounts of the combined general fund and special funds with those of certain Crown corporations: "service" corporations, which exist to service the government and "provincial" corporations, which conduct government activities and complement government programs. Other Crown corporations, identified as "transportation" companies and "commercial" enterprises, are included in these accounts on an equity basis, whereby the government's investment in the entities is adjusted to reflect underlying book values.

Trust Funds — include superannuation funds, sinking funds, other managed trust funds and custodial deposits. These funds and deposits are held in trust and the government has no power of appropriation over them.

In addition to the above, the Public Accounts contain the individual financial statements for all Crown corporations and agencies.

Basis of Accounting

The accrual basis of accounting (matching revenue and expenditure to the period in which it was earned or spent) is used in the preparation of these financial statements as explained below.

Revenue

All revenues are recorded on an accrual basis except where accruals cannot be determined with a reasonable degree of certainty or where their estimation is impractical. Exceptions, which normally relate to certain payments to the government under the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act* 1977, are recorded on a cash basis.

Expenditure

All expenditure, including the cost of fixed assets, is recorded for goods received and services rendered during the fiscal year. Grants and contributions (which include forgivable loans) are recorded as expenditure when disbursement of the funds has been authorized, except for social assistance payments.

Assets

All assets are recorded to the extent they represent claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to fiscal year-end. Rental payments for capital leases are reported as expenditure at the dates of inception of the leases.

Liabilities

All liabilities are recorded to the extent they represent claims payable to outside parties as a result of events and transactions prior to the fiscal year-end.

Foreign Currency Conversion

Monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at the prevailing exchange rate at year-end. Foreign currency transactions are converted at the exchange rate prevailing at the date of the transaction unless hedged (a transaction intended to reduce the risk of loss from price fluctuations) by forward contracts which specify the rate of exchange.

Adjustments arising as a result of foreign currency conversion are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed-term monetary assets and liabilities are reported as a deferred charge and amortized over the remaining terms of the related items on a straight-line basis. Non-monetary assets and liabilities are converted at historical rates of exchange.

■ Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to fiscal year-end. Those issued subsequent to fiscal year-end relating to the previous year are included in accounts payable.

Temporary investments include short-term investments and are recorded at the lower of cost or market value.

■ Accounts Receivable

All amounts receivable at the fiscal year-end for work performed, goods supplied or services rendered are recorded as revenue of the fiscal year. Provision is made where collectibility is considered doubtful.

■ Inventories

Inventories comprise items held for resale and are recorded at the lower of cost or net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development for sale to outside parties is recorded at the lower of cost or net realizable value.

■ Investments In and Amounts Due from Crown Corporations and Agencies

Investments in and amounts due from Crown corporations and agencies represent long-term investments and amounts due other than trade receivables. They are recorded at cost unless significant prolonged impairment in value has occurred. If so, they are written down to recognize this loss in value. If the value of the investment is restored, the investment is written back up to not more than its original cost.

■ Loans, Advances and Other Investments

Loans, advances and other investments are recorded at cost less adjustment for any prolonged loss in value.

■ Mortgages

Mortgages receivable are secured by real estate and are repayable over periods ranging up to 30 years. Provision is made where collection is considered doubtful.

■ Fiscal Agency Loans

Fiscal agency loans are loans made to government bodies which have been financed by borrowings made by the Minister of Finance and Corporate Relations in his capacity as fiscal agent on behalf of government bodies. These loans are recorded at maturity value less unamortized discount and sinking fund balances. Discount is amortized on an effective-yield basis.

■ Fixed Assets

Disbursements for fixed assets are recorded as expenditures in the fiscal year in which assets are acquired. Highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land in the province, not including property under development, are recorded at a nominal value of $1.

Other Assets

Other assets include prepaid program costs which represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distribution in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

Accounts Payable and Accrued Liabilities

All amounts payable (including trade payables to Crown corporations and agencies) for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditure of the fiscal year.

Due to Crown Corporations and Agencies

Amounts due to Crown corporations and agencies represent liabilities incurred (other than trade payables) which are repayable in the following year.

Deferred Revenue

Deferred revenue represents amounts received or receivable prior to the fiscal year-end in payment of revenue that will be earned in subsequent fiscal years.

Public Debt

Public debt represents direct debt obligations for the purposes of the Province of British Columbia and fiscal agency loans. These obligations are recorded at principal less unamortized discount and sinking fund balances where applicable. Discount is amortized on an effective-yield basis.

Combined General Fund and Special Funds (Consolidated Revenue Fund)

Combined Balance Sheet as at March 31, 1987

	1986/87	1985/86
ASSETS	($ Millions)	
Cash and temporary investments	110	228
Accounts receivable	789	692
Inventories	105	109
Investments in and amounts due from Crown corporations and agencies	1,040	381
Loans, advances and other investments	154	181
Mortgages receivable	300	2[illegible]
Fiscal agency loans	2,217	1,824
Other assets	122	128
	4,837	3,824
LIABILITIES AND NET EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	1,092	1,001
Due to Crown corporations and agencies	226	143
Deferred revenue	213	211
Public debt, issued for government purposes	4,802	3,197
Public debt, to finance fiscal agency loans	2,217	1,824
	8,550	6,376
Net equity (deficiency)	(3,713)	(2,552)
	4,837	3,824

Combined General Fund and Special Funds (Consolidated Revenue Fund)

Combined Statement of Revenue and Expenditure For the Fiscal Year Ended March 31, 1987

	1986-87	1985-86
	($ Millions)	
REVENUE		
Taxation	4,861	4,649
Natural resources	658	700
Other	589	607
Contributions from government enterprises	448	398
Contributions from the federal government	1,993	1,826
Total revenue	8,549	8,180
EXPENDITURE		
Health	2,881	2,587
Social services	1,491	1,527
Education	1,914	1,735
Transportation and communications	975	1,081
Natural resources, trade and industrial development	615	660
Protection of persons and property	453	427
Aid to local government	392	298
Debt servicing	394	342
General government	196	161
Housing	102	88
Recreation and cultural services	67	68
Other	318	173
Total expenditure	9,798	9,147
Net operating expenditure for the year	(1,249)	(967)
NON-OPERATING TRANSACTIONS		
Valuation adjustment of investments in and amounts due from Crown corporations and agencies	88	
Net expenditure for the year	(1,161)	(967)

Combined General Fund and Special Funds (Consolidated Revenue Fund)

Combined Statement of Changes in Financial Position For the Fiscal Year Ended March 31, 1987

	Assets	Liabilities	Net Equity
		($ Millions)	
Financial Position — Beginning of Year	3,824	(6,376)	(2,552)
Changes during year —			
Cash and temporary investments (decrease)	(118)		
Investments in and amounts due from Crown corporations and agencies (increase)	659		
Fiscal agency loans (increase)	393		
Other assets (increase)	79		
Public debt, issued for government purposes (increase)		(1,605)	
Public debt, to finance fiscal agency loans (increase)		(393)	
Other liabilities (increase)		(176)	
Net expenditure for the year			(1,161)
Financial position — end of year	4,837	(8,550)	(3,713)

Combined General Fund and Special Funds (Consolidated Revenue Fund)

Combined Revenue By Source

	Budget 1986/87	Actual 1986/87	Actual 1985/86
		($ Millions)	
Taxation revenue:			
Personal income	2,351	2,248	2,073
Corporation income	406	281	323
Social service	1,623	1,541	1,452
Fuel	436	373	420
Other	372	418	381
	5,188	4,861	4,649
Natural resource revenue:			
Petroleum and natural gas	242	170	274
Minerals	67	56	57
Forests	140	185	144
Water resources	220	236	214
Wildlife	12	11	10
	681	658	699
Other revenue:			
Sales and services	240	282	222
Licences and permits	191	183	166
Interest from investments	76	53	84
Miscellaneous	70	71	135
	577	589	607
Contributions from government enterprises:			
Liquor Distribution Branch	420	425	398
Other	10	23	
	430	448	398
Contributions from federal government:			
Established Programs Financing	1,134	1,205	1,091
Canada Assistance Plan	612	611	596
Other	146	177	139
	1,892	1,993	1,826
Total operating revenue	8,768	8,549	8,179

Combined General Fund and Special Funds (Consolidated Revenue Fund)

Combined Expenditure By Ministry[1]

	Budget 1986/87	Actual 1986/87	Actual 1985/86
		($ Millions)	
Legislation	11	11	10
Auditor General	4	4	4
Ombudsman	2	2	2
Office of the Premier	1	1	2
Advanced Education and Job Training	656	651	691
Agriculture and Fisheries	117	69	95
Attorney General	388	417	375
Economic Development	93	52	42
Education	1,185	1,207	1,114
Energy, Mines and Petroleum Resources	35	33	23
Environment and Parks	130	126	120
Finance and Corporate Relations	64	84	70
Forests and Lands	401	386	368
Health	2,755	2,860	2,631
Intergovernmental Relations	4	3	3
Labour and Consumer Services	21	21	22
Municipal Affairs	251	245	310
Provincial Secretary and Government Services	69	77	76
Social Services and Housing	1,511	1,509	1,499
Tourism, Recreation and Culture	47	48	36
Transportation and Highways	993	994	1,116
Other Appropriations:			
Management of the public debt	458	394	334
Contingencies	50	30	19
Student employment program	15	14	
Transit Services	162	161	46
Fund for Excellence in Education	110	109	83
B.C. Lottery Fund	110	290	55
Total operating expenditure	9,643	9,798	9,146

[1] Ministry organization shown is organization in effect on March 31, 1987.
Total combined funds expenditure unaffected by restating ministry expenditures.

Consolidated Financial Statements
(Consolidated Revenue Fund and Crown Corporations)

Consolidated Balance Sheet as at March 31, 1987

	1986/87	1985/86
ASSETS	($ Millions)	
Cash and temporary investments	219	309
Accounts receivable	901	805
Inventories	105	120
Investments in and amounts due from Crown corporations and agencies	1,873	1,471
Loans, advances and other investments	206	224
Mortgages receivable	304	285
Fiscal agency loans	3,772	3,123
Other assets	158	192
	7,538	6,529
LIABILITIES AND NET EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	1,353	1,265
Due to Crown corporations and agencies	18	12
Deferred revenue	246	366
Public debt	9,194	7,524
	10,811	9,167
Net equity (deficiency)	(3,273)	(2,638)
	7,538	6,529

Combined Financial Statements
(Consolidated Revenue Fund and Crown Corporations)

Consolidated Statement of Revenue and Expenditure
For the Fiscal Year Ended March 31, 1987

	1986/87				1985/86
	Consolidated Revenue Fund	Consolidated Crown Corporations	Transfers Between Consolidated Revenue Fund and Crown Corporations	Total	Total
			($ Millions)		
Revenue					
Taxation	4,861			4,861	4,649
Natural resources	658	3		661	759
Other	589	1,259	(20)	1,828	1,424
Contributions from government enterprises	448	1,156	(1,160)	444	401
Contributions from federal government	1,993			1,993	1,826
Total revenue	8,549	2,418	(1,180)	9,787	9,059
Expenditure					
Health	2,881	970	(687)	3,164	2,838
Social services	1,491			1,491	1,527
Education	1,914	6	(10)	1,910	1,732
Transportation and communications	975		(33)	942	1,043
Natural resources, trade and industrial development	615	469	(282)	802	979
Protection of persons and property	453	20	(89)	384	360
Aid to local government	392	2	(1)	393	299
Debt servicing	394	414	(9)	799	776
General government	196	230	(38)	388	320
Housing	102	47	(18)	131	115
Recreation and cultural services	67	2	(3)	66	75
Other	318	(155)	(10)	153	183
Total expenditure	9,798	2,005	(1,180)	10,623	10,247
Net operating expenditure for the year	(1,249)	413		(836)	(1,188)
NON-OPERATING TRANSACTIONS					
Adjustment of investments in and amounts due from Crown corporations and agencies				315	
Increase (Decrease)in unremitted equity of transportation companies commercial enterprises				(113)	331
Consolidated net expenditure for the year				(634)	(857)

Trust Funds

Statement of Financial Position as at March 31, 1987

	1986/87		1985/86	
		($ Millions)		
ASSETS				
Superannuation, pension and disability funds	8,400		7,417	
Sinking funds	2,726		2,512	
Other managed funds	469		754	
Custodial deposits	2,924		2,630	
		14,519		13,313
LIABILITIES				
Superannuation, pension and disability funds	13		8	
Sinking funds	10			
Other managed funds			4	
Custodial deposits	25		14	
		48		26
TRUST FUND BALANCES				
Superannuation, pension and disability funds	8,388		7,456	
Sinking funds	2,715		2,511	
Other managed funds	469		703	
Custodial deposits	2,899		2,617	
		14,471		13,287
		14,519		13,313

Trust Funds

Statement of Changes in Trust Balances for the Year Ended March 31, 1987

	1986/87		1985/86	
		($ Millions)		
SUPERANNUATION AND PENSION FUNDS				
Contributions and transfers in	629		593	
Investment income	764		705	
		1,393		1,298
Pension payments and transfers out	(454)		(392)	
Administration fees and other	(7)		(7)	
		(461)		(399)
Net change		932		899
SINKING FUNDS				
Instalments	220		204	
Investment income	264		271	
		484		475
Capital disbursements		(280)		(204)
Net change		204		271
OTHER MANAGED FUNDS				
Capital receipts	3,955		5,950	
Investment income	40		70	
		3,995		6,020
Capital disbursements		(4,229)		(5,806)
Net change		(234)		214